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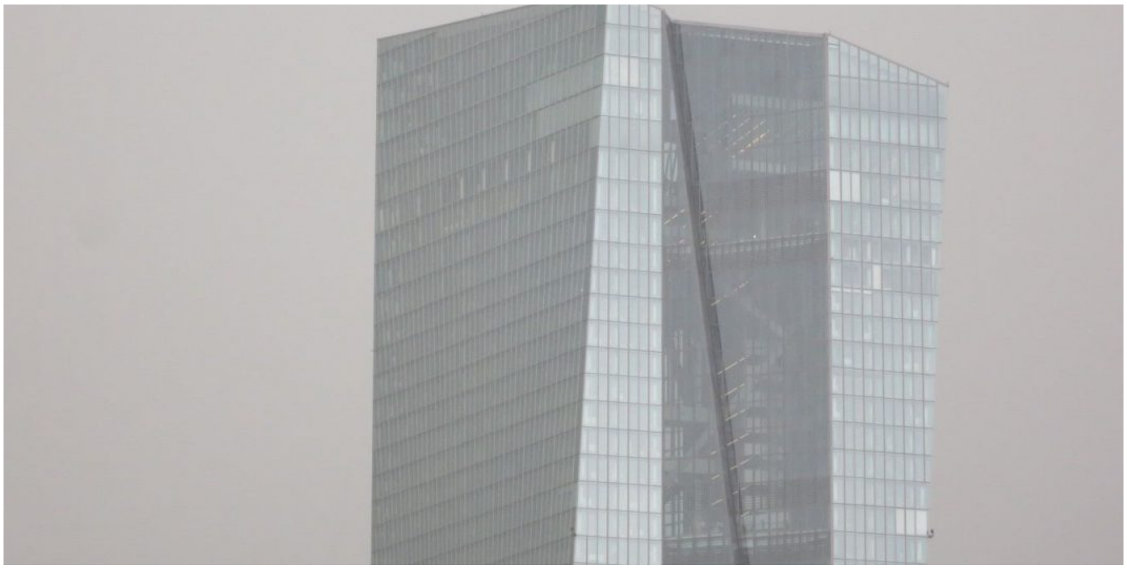


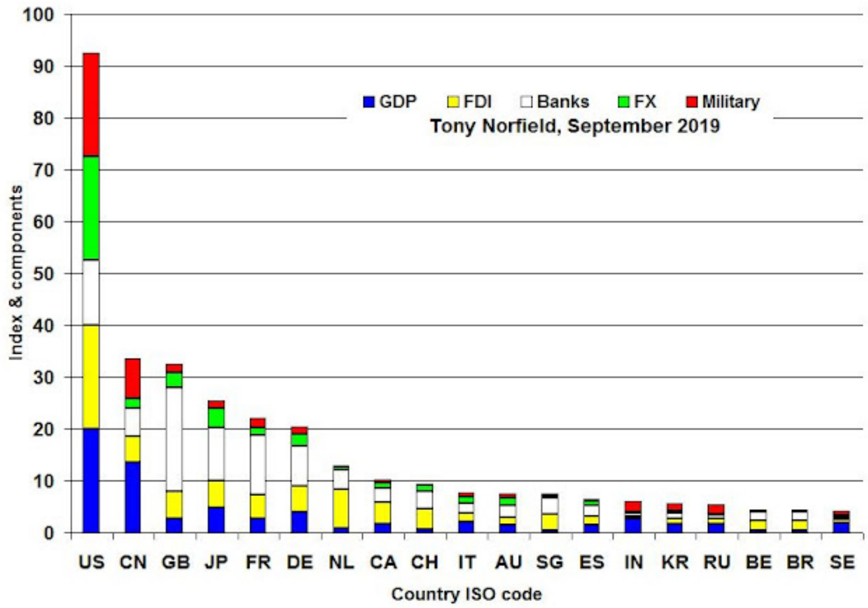
TONY NORFIELD 2019-09-18

INDEX OF POWER UPDATE, 2018-19: CHINA #2

ECONOFICTION >POWER INDEX, IMPERIALISM, IMPERIALISTISCHER WELTKRIEG, MARXISM, USA

his is an update of the statistics for my Index of Power, using data for 2018-19 and discussing what a country's ranking reflects. The major change is that China's rank has shifted up and it has now taken the UK's place at number 2 in the world. The US still remains in a commanding position, well ahead of the other major countries, but its lead has shrunk in the latest reading, especially versus China. Countries in positions four to ten, when the Index was last updated in early 2018, remain in the same rank positions with the new data. The Index highlights the dramatic inequality of power in the world. In the top group, only China, the UK, Japan, France and Germany have an index value that is more than 20% of that for the US. Only 30 countries have a total index value that is more than 2% of the US number; the world's remaining 170 or so countries count for even less.

INDEX OF POWER



INDEX EVOLUTION

I first constructed this Index in early 2012 and named it an 'Index of Imperialism'. My objective was to use readily available data to gauge different dimensions of the international status of countries. Since then, I have changed the title of the Index and also some of the components, but the underlying logic is the same. The title was changed to the 'Index of Power' because this seemed a better description of what it was measuring. It didn't make much sense to call the lower ranking countries 'imperialist', but only little ones, or having an implicit assumption that the higher a country's ranking, the more imperialist it was. I had always pointed out that any description of a country as imperialist would have to depend upon first assessing its role in the world economy. Taking Luxembourg as an example, it is only a small cog in the world system (number 24 in the new Index), but it is an integral part of the European-based imperial machine and plays a particular role within it. The Index number, nevertheless, is meant to reflect relative positions of power in the world economy. Which brings me to which aspects of political and economic power are covered. Largely they are based on economic data, and they are also biased in favour of those measures that reflect a country's *international* reach. These do not directly measure political power, but it is evident, for example, that a bigger economy will tend to have more weight in its dealings with the rest of the world than a smaller one. I would have been happy to include some more directly political components, but could think of none that seemed relevant and easily measurable for a wide range of countries. That the top fifteen countries ranked by the Index include all the permanent voting members of the UN Security Council, and also the G10 members, confirm that there is a broad correlation of the components used with real-world political power. The five original components of my Index in 2012 were: GDP, foreign direct investment assets, military spending, the importance of a country's currency in central bank FX reserves and a country's ownership of the major international banks. The first three – GDP, FDI and military spending – have stayed in all the later versions. But I found much better and more representative measures for the final two components during my later investigations, including data for more countries. For these latter two, I now use the global volume of trading in particular currencies and the value of international bank loans and deposits centred in different countries. These revised Index components were fully discussed in my 2016 book, *The City*, Chapter 5, 'The World Hierarchy', including the rationale for the particular data items used and the limitations they had. Yet, people being what they are, some writers have still managed to misinterpret what I said, so I will again review the key points below. I will also note the small amendments to how I have dealt with data for China in the latest Index values (which, however, is not the reason for China's rise to #2), and discuss how to interpret China's position in the world economy.

INDEX CONSTRUCTION

The five components of my Index of Power are: **GDP:** GDP measured in nominal US dollars, using IMF data for 2018. **FDI:** The stock of foreign direct investment assets, using UNCTAD data for end-2018. **FX:** The volume of global transactions in a currency, with April 2019 as the base period, using the latest BIS survey of September 2019 (euro transactions are allocated among the 19 euro members). **Banks:** The outstanding international loan assets and deposit liabilities of banks in a particular country, using data from the BIS for end-2018. **Military:** the military spending of countries, measured in nominal US dollars, using data from SIPRI for 2018. — Three data components – GDP, FDI and Military – are available for most countries in the world, although the data may be a little old or not available in some cases. The two other components are available only for a smaller group of countries – 57 for FX (including all euro members) and 47 for Banks – although it is very likely that the countries left out will have minimal readings. Each of the components is weighted equally in the Index. The country with the largest component reading gets a score of 100 for that item, and other countries get a scaled down number. So, for example, if Country A has the biggest GDP,

then it is 100, and country B, with a quarter of that GDP is 25. To complete the Index, components are added up for each country then divided by 5. If a country is the biggest in all components, its final Index number will be 100. That is almost true for the US, which has a value of 92.4, with the biggest GDP, FDI, FX and Military, but coming second to the UK as a location for Banks (rather, *international* banking). Below I discuss the limitations of the available data used for the index components.

GDP

One can always doubt whether an economic statistic really does measure what it claims to measure. Nevertheless, Gross Domestic Product (GDP) has the big advantage of being an easily available item of data for almost all countries. For my current purpose, one problem with GDP is that it overstates the value of output that accrues to a particular country when it has net payments of income to foreign investors, and understates that value when the country has net income from foreign investment. For example, Ireland's GDP is overstated in this respect, because it has to make big payments to foreign investors – more is produced in the country than ends up staying there. By contrast, Norway's GDP underestimates how much revenue Norway receives because it gets big net payments from its foreign investments. An alternative measure, GNP, includes that difference, but is much less easily or widely available. In any case, it is worth pointing out that GNP and GDP do not allow for the way economic data count value produced. As John Smith pointed out, these measures are better understood as measuring value *appropriated* by a country, rather than value *created* in that country. GDP does not measure a country's international influence directly. But a country's 'weight' in the world economy is an important factor in its potential influence, and GDP is one measure of that weight. It is also better to look at nominal GDP, not on a Purchasing Power Parity basis, as a truer measure of this global weight. You cannot buy anything on the world market with PPP dollars, which do not exist. GDP's value as a component of a power index can be seen in another way: one can look at GDP as measuring population multiplied by GDP per head of population. This allows for the fact that in the world economy people count only insofar as they also have incomes, and how much income! In the case of China's GDP, the number I have used is the GDP of China itself, plus that for Hong Kong and Macau, which are counted separately in official data. Macau is a new addition compared to the last Index calculation, but this increases China's total index number by less than 0.1.

FDI

Foreign direct investment is one measure of a country's foreign ownership of assets, and its ability to exploit others in the world economy. However, especially given the registration of FDI in tax havens, a problem is that not all of the ultimate country owners of these assets are identified. In the case of the Republic of Ireland and the British Virgin Islands, and also for some other countries, they would score relatively highly on this index measure, but little of the FDI recorded as coming from these locations is owned by their residents.[1] Also, FDI is distinguished from portfolio investment in official data. To count as FDI, the investment has to account for more than 10% of a foreign company's assets, otherwise it is counted as 'portfolio' investment. Portfolio investment in equities and bonds is huge, but data covering it is much more patchy than for FDI, and is even less likely to identify the ultimate country-based owners. A very high proportion of portfolio investment is done through global investment funds that also make use of tax havens. Another weakness of FDI data is that it does not include the economic privileges in economic relationships that major companies in the rich countries have with their suppliers in poor countries, or others in their 'supply chains', privileges backed by their states in international trade and investment deals. This omission is difficult to rectify, but the FDI numbers are one measure of a country's international reach, and so will likely be correlated also with such privileges. I use FDI data as a rough guide to a country's ability to exploit labour and resources in other countries. Though it has obvious flaws, I have not found any better data with a wide international scope for this purpose. Data for China raise a problem under this heading. Some of China's FDI is into Hong Kong, and some of Hong Kong's is into China, so just adding up the two figures would exaggerate the international reach (outside China/HK) of the FDI for all of China. Previously, I included only China's FDI number and left out that for Hong Kong, thinking this would give a decent estimate of the number for China as a whole. After recently finding a report on the source and destination of the FDI stock, it turns out that it did. Using figures in that report for the FDI stock at end-2018, I am confident that the latest FDI index component for China as a whole is reasonably accurate.

FX

Every three years, the Bank for International Settlements conducts a survey of the trading in foreign exchange. It is the most comprehensive account of how far a country's currency is used in international markets, something that I think is one important reflection of that country's international influence. As discussed in *TheCity*, Chapter 7, 'The Imperial Web', there are certain market privileges that accrue to a country's companies and governments if their currency is used widely in the world. This updated Index of Power uses the latest BIS survey published on 16 September 2019, with a base month of April 2019 for counting the volume of trading. As in previous Index calculations, the US dollar is by far the dominant currency used worldwide, being involved in 88% of all transactions in 2019. By comparison, the euro, consisting of 19 countries, is involved in just 32% of all transactions. (Note that two currencies are involved in an FX deal, so the total shares add to 200% when counting all of them) The Index weight for the euro's FX component is allocated among all euro members according to their relative GDPs. In the latest 2019 survey, the market share of the Chinese renminbi (CNY) has remained at 4%, the same as in 2016. It remains the 8th most traded currency, up from 17th in 2010. Given that part of China's territory is Hong Kong, which has its own currency the Hong Kong dollar (HKD), I have had to judge how to use data on its trading. For simplicity, I have just added up the two numbers for the CNY and HKD. This boosts

the China ranking, since the HKD's share of currency trading rose from 2% in 2016 to 4% in 2019. But this does little to exaggerate the figure for China as a whole. Not all CNY or HKD currency trading is in the CNY versus the HKD, and the FX component has only a small impact on China's overall index number when divided by five.

BANKS

International bank lending and borrowing based in a particular country is another measure of a country's importance in the financial sphere. It does not include other bank activities, or the operations of other financial institutions, but the scale of such borrowing and lending is a reasonable proxy for a country's international financial status. That conclusion would have to be questioned when a country is the base for large-scale international banking activity that is operated almost exclusively by foreign banks, since, usually for tax reasons, the country is favoured as a financial dealing hub.[2] As noted before, this is the only index component in which the US falls short of the top position, coming in second behind the UK. That may well change in future with the impact of Brexit, if/when it goes ahead, on reducing the operations of banks based in the UK, especially with regard to the rest of Europe, and important part of their business. But it was true at the end of 2018. While banking activity in the US is much bigger than elsewhere, a large portion of it is oriented towards the domestic US economy, so does not count in this index calculation. The China-Hong Kong relationship emerges again in how to deal with the data for international banking. Hong Kong has a slightly bigger international banking sector than China, having initially been developed as a regional commercial and finance hub for British imperialism well before the growth of mainland China's banking business. I do not have enough information to judge how much of their 'international' dealing is between each other and how much is with external countries, and have taken the simple approach of using an average of the index score for China and Hong Kong as an estimate of the external number for China as a whole.[3]

MILITARY

Big spending on the military does not necessarily mean that a country has military clout and an ability to intimidate other countries, but it usually does. Despite the record of exorbitant cost overruns in military projects, ships crashing into each other and missiles or missile defence systems that don't work, the scale of such spending is a measure of military power, the most explicit political component of my Index of Power. As before, the US is by far the biggest spender. China comes second, but with less than 40% of the US number. The only other countries with even around 10% of the US number are France, Russia, Saudi Arabia and India. On the latest SIPRI numbers, the UK was at 7.7%. One might well argue that China can buy more firepower with $1bn than the US, given cheaper costs and probably less scope for armaments producers to milk the taxpayer. Also, while China is likely to be behind the US in overall technological capability, this may not be true in all areas. Many of the US advances could prove to be unworkable, or be as effective as the Boeing software 'upgrade' to its 737 Max jets. US military power is also boosted beyond its own huge spending by how it encourages other capitalist countries to join in and follow its strategic aims, in particular with NATO. This acquiescence adds to the influence it can project by the large number of military bases it has all over the world,

CHINA: DUCK THEORY VERSUS HISTORICAL MATERIALISM

With China at number 2 in my global power ranking, the question arises as to whether it should be considered an imperialist country. My view is that it should not. Nevertheless, this is a big topic that I will deal with only summarily here, noting what should be taken into account when deciding how to characterise China. Firstly, it is not so much the actions of a country that should define it as the dynamic of the economy and society that produces such actions. In turn, this will also depend upon the international situation and a country's position in it as much as on the internal political system. The term 'imperialist' should apply only to those capitalist countries with a dominant position in the world that are, directly or indirectly, part of the system of oppression, control and violence that acts to keep that system in place. China is not a fully-fledged capitalist country with politicians and companies joining in the carve up of the world. Its newly minted billionaires do not have free rein to do more or less what they like within China, and even its privileged bureaucrats could find themselves jailed, or dead, if they step too far out of line with what the ruling party thinks is best for the country. Critics of China would seem to be able to point to many things to justify calling it imperialist. For example, there is China's political oppression of the 11 million population of the Uighur ethnic group in its Xinjiang region; China's many deals for raw material supplies from Latin America and Africa; big loans to corrupt politicians for infrastructure projects that might later be paid off by being switched into Chinese ownership of ports, etc; its attempt to control territorial waters in the South China Sea, including creating a number of islands, and its growing volume of foreign investment. But this is only a 'duck theory', pointing to similar things that the classic imperialist countries have done, or are still doing, to conclude that China is the same as them. In some respects, China may 'look like a duck', 'swim like a duck', etc, but that does not mean it has duck DNA. In other words, the dynamic of China's economic and political system is not that of an imperialist power. Above all, the imperialist dynamic is based upon a country trying to boost capitalist profitability and being in a position to do so, especially through the control of foreign markets and areas of investment. By contrast, China's policy since the founding of the People's Republic in 1949 has been largely defensive, trying to develop without being dismembered by the major powers, as it had been throughout the previous century. Its objective is to find a means of surviving in a hostile world economy run by the major capitalist countries. Initially, this had disastrous results, as with the 'Great Leap Forward' in 1958-62 and millions of deaths by famine. By the 1970s, however, China began a cautious engagement with the world economy. It aimed to limit the impact of market forces in special economic zones, restricted the influence and property rights of foreign businesses, held back the

formation of a domestic capitalist class and tried to build the foundations of an industrial economy through state spending and investment plans. Despite many negatives, including lots of pollution and wasted resources, this proved to be successful. It brought hundreds of millions of people out of grinding poverty and ended up with China as a major producer, one that has even begun to be successful in areas of modern technology, such as 5G mobile communications – much to the alarm of the US! This striking record does not endorse China's often repressive, and sometimes politically stupid, government policies. But it should serve at least as a counter-weight to the critiques of rich country, liberal democracy enthusiasts who are so eager to find fault with China, but who pay little or no attention to the depredations of their own governments, and all too often act to echo the anxiety of their own ruling elites that China has out-competed them.

CONCLUSION

The Index of Power is a summary way of representing each country's importance in the world economy and can be used to track changes in status over time. For the top 20 countries there had previously been minor changes in ranking. This time around, the major changes concern the advance of China and the slipping back of the UK. Such a development counts for more than it might at first appear to do, because it reflects the diminished influence of the Anglo-American system. Both changes in status were fairly predictable, with economic growth and investment boosting China's, while Brexit turmoil has helped lower the UK's rank. That has not made it any easier for the US. While the US index value remains way ahead of all the others, it has shrunk in absolute terms, and particularly in relative terms with respect to China. This move, under way for a number of years, has been reflected in an increasingly aggressive policy of the US government towards China. The US does not only have multiple military bases surrounding China, in Okinawa, Japan, South Korea and elsewhere (China has none around the US), it has also stepped up its more specifically economic offensive. A key US target here is China's flagship telecoms and electronics company, Huawei, and its 5G technology, the latter an area in which US companies are well behind the competition. The US uses its influence over allies and other subordinates to encourage them to boycott Huawei on laughable security grounds. China is also a problem for the US in other respects. For example, it has recently offered Iran, a longstanding *bête noire* of American imperialism, huge investments worth several hundred billions of dollars, in contradiction to US edicts. By incorporating Iran into its mega development project, the Belt and Road Initiative, China is not only ignoring US sanctions, it will also be dealing with Iran in non-US dollar currencies. This puts a further squeeze on US global influence and is another threat to its formerly unrivalled hegemony.
Tony Norfield, 17 September 2019

[1] For this reason, Ireland is excluded from the graph shown of the top index countries. It would have come in at number 17. Among others, a number of US corporations have done 'tax inversions' to incorporate in Ireland and so reduce their tax bills. [2] The Cayman Islands stand out here, and this territory has also been excluded from the Index of Power graph shown above. [3] What to do with Macao, a special administrative region of China, is another conundrum, although a small one. I have excluded its data from the bank index calculation for China, although these are part of the BIS country report on banks' foreign assets and liabilities. Were Macao properly included this would boost China's total index number a little.

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